SUPREME COURT, U. S.

Office Supreme Court, U.S.
FILED
FEB 6 1967
JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1966.

No. 908

BANKERS LIFE AND CASUALTY COMPANY,
A CORPORATION,
Plaintiff-Petitioner,

vs.

GUARANTEE RESERVE LIFE INSURANCE COMPANY OF HAMMOND, A CORPORATION, AND NATIONAL PROTECTIVE LIFE INSURANCE CO., A CORPORATION,
Defendants-Respondent.

REPLY OF PETITIONER.

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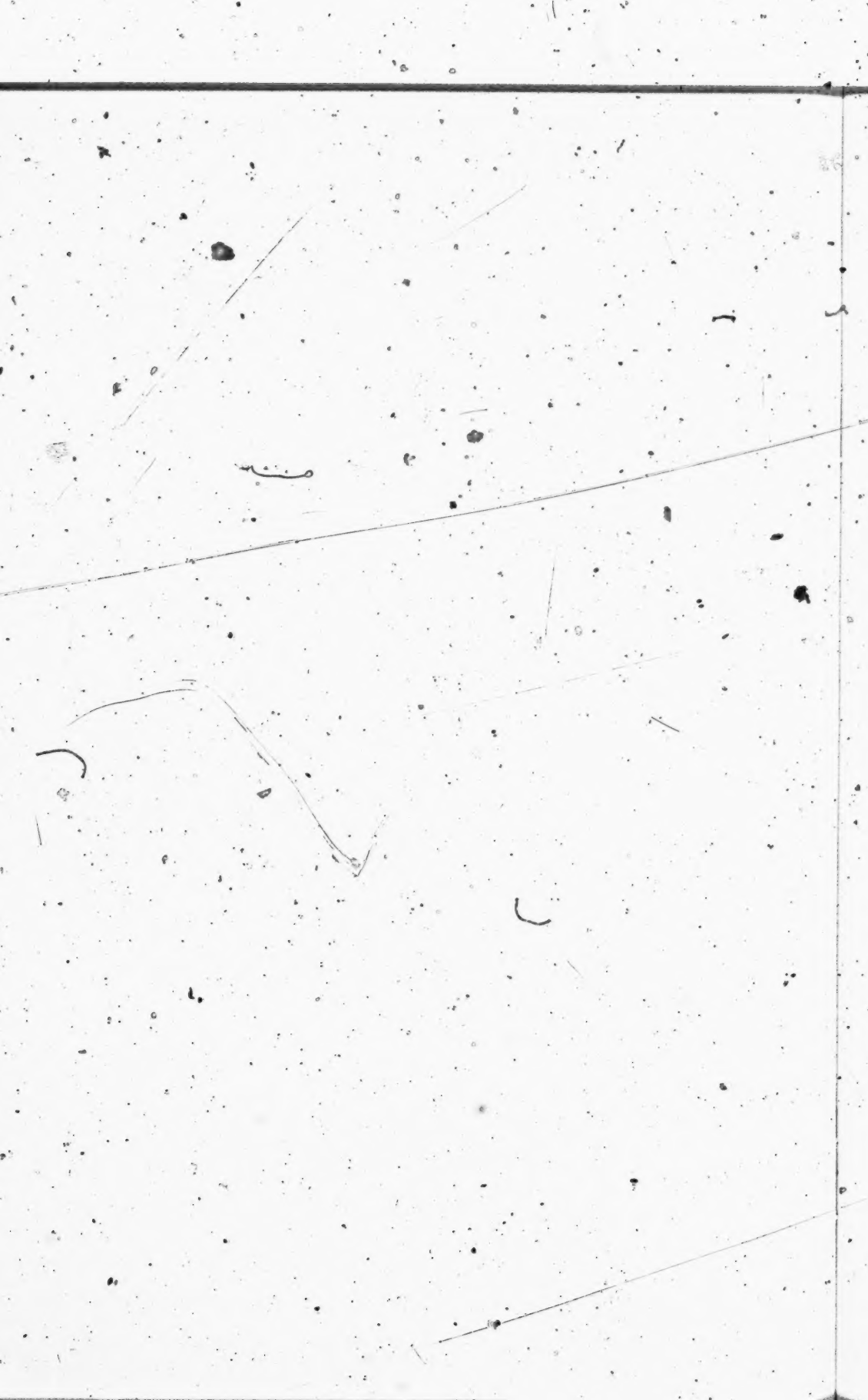

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REPLY OF PETITIONER.

I. THE ACTION OF THE COURT OF APPEALS WARRANTS EXERCISE OF THIS COURT'S POWER OF SUPERVISION.

Respondent simply urges certiorari is inappropriate, saying the Petition's question whether the Court of Appeals exceeded its review jurisdiction as to facts and state law (and was wrong on both) is a question "of interest only to the parties themselves" (Respondent's Br. p. 1).

Rule 19 expressly includes among those reasons which shall be considered in the granting of certiorari, a situation where a court of appeal "has so far departed from the accepted and usual course of judicial proceedings, . . . as to call for an exercise of this court's power of supervision."

Apart from trials in District Courts, the most frequent "course of judicial proceedings" is that of review by a Court of Appeals of a District Court's findings of fact. Rule 52(a), setting guidelines for that "course of judicial proceedings" is crucially important and its observance a

prime responsibility inhering in the supervisory power of the Supreme Court.

Yet it is seldom a key to certiorari for two reasons: the Courts of Appeals usually jealously guard themselves from assuming the burden of making fact decisions; and it is commonly thought that errors of fact are not open for correction here.

But if it be true that the highest level of our judicial system is *not to decide the facts,* it is equally true that the lowest level of our judicial system *is to decide the facts.* It is precisely because the District Court's function is important enough to be protected by the Supreme Court that certiorari is the only possible remedy where, as here, the District Court's function to determine facts, is disregarded by a Court of Appeals.

The cases construing Rule 52(a) as forbidding Courts of Appeals from rejecting District Courts' findings and inferences when based on evidence are set out in our petition at pp. 8 to 13, and are unanswered and undistinguished by respondent. Respondent simply urges certiorari is inappropriate, as the issue of the review authority exercised here is important solely to the parties.

There is precedent to support grant of certiorari where, as in the case at bar, a court of appeals has allegedly misapplied the scope of its power of review in analogous circumstances. Surprisingly, we have not found a case where Rule 52(a) has been the "course of judicial proceedings" protected by grant of certiorari other than *McAllister* v. *U. S.,* 348 U. S. 19, 20 (1954), where this Court granted certiorari because the standard of Rule 52(a) had been misapplied:

> "The first question presented is whether the Court of Appeals in reviewing the District Court's findings applied proper standards. In reviewing a judgment of a trial court, sitting without a jury in admiralty,

> the Court of Appeals may not set aside the judgment below unless it is clearly erroneous. No greater scope of review is exercised by the appellate tribunals in admiralty cases than they exercise under Rule 52(a) of the Federal Rules of Civil Procedure."

As the opinion concentrates *entirely* on the proper construction to be given Rule 52(a), it is submitted that this question was the sole motivating force behind the granting of certiorari.

An analogous case involving the power of the Court of Appeals to substitute its judgment on facts for the Labor Board was considered to raise a question of such importance in this Court that certiorari was granted:

> "... charges by public agencies constitutionally created —such as the Board—*that their duly conferred jurisdiction has been invaded so that their statutory duties cannot be effectively fulfilled, raise questions of high importance. For this reason we granted certiorari.*" *National Labor Relations Board* v. *Waterman S. S. Corp.*, 309 U. S. 206, 208-209 (1939). (Emphasis added).

Concern by this Court over the proper application of the standards of appellate review to the Labor Board prompted Mr. Justice Frankfurter to note:

> "Our power to review the correctness of application of the present standard ought seldom to be called into action. Whether on the record as a whole there is substantial evidence to support agency findings is a question which Congress has placed in the keeping of the Court of Appeals. This Court will intervene only in what ought to be the rare instance *when the standard appears to have been misapprehended or grossly misapplied.*" *Universal Camera Corp.* v. *National Labor Relations Board*, 340 US 474, 490-491 (1950) (Emphasis added).

In *Spiller* v. *Atchison, T. & S. F. R. Co.*, 253 U. S. 117 (1919), this Court granted certiorari to review decrees of a federal court of appeals which had reversed orders issued

by another administrative agency, the Interstate Commerce Commission, permitting recovery of awards in a reparation proceeding. Certiorari was granted on the basis that the "substantial question" presented was "that there was not sufficient evidence before the Commission to sustain its order of reparation." (at 122.)

The reasons which prompted this Court to allow certiorari in *McAllister, Waterman, Universal Camera,* and *Spiller* apply with equal force to the case at bar. The powers and responsibilities of a trial court in the federal court system are at least as important as those of the Labor Board or the Interstate Commerce Commission. Pursuant to a general policy, not unlike the congressional policy of protecting findings of facts by administrative agencies, the Judicial Conference of the United States promulgated the Federal Rules of Civil Procedure to establish by Rule 52(a) that findings of facts by the trial court shall not be overturned if there exists an evidentiary basis in the record therefor. An invasion of this role, as we are witnessing in the case at bar, can only lead to a gradual erosion and the inevitable splintering of what has functioned as an intricately organized yet uniform federal court system, at least as important as administrative hearing systems.

II. CERTIORARI IS APPROPRIATE WHERE IN A DIVERSITY CASE THE FEDERAL DECISION IS CONTRARY TO THE LAW OF THE STATE.

This Court is told by Respondent that no legal principle justifying certiorari is here involved. This statement is in a brief which makes no real attempt to meet our plain showing that the 7th Circuit has pronounced rules of law, in a diversity case arising from Illinois, *contrary* to the decisional and statutory law of Illinois.

This Court's Rule 19 lists among the reasons for granting certiorari just such a case as this, where a court of appeals

has decided a question of state law "in conflict with applicable state or territorial law."

28 USCA § 1652 (almost unchanged from Section 34 of the Judiciary Act of 1789) provides that:

> "The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply."

Erie R. Co. v. *Tompkins*, 304 U. S. 64, 78 (1938) made it plain that rules of decision established by the judicial decisions of state courts, as well as those prescribed by statute, are "laws" within the requirement of this Act that state laws shall be the rules of decision in civil actions in the federal courts. A federal court whose jurisdiction was obtained through diversity of citizenship is required to follow the decisional law of the state in matters of substance and is precluded from applying its own independent interpretation of the law:

> "since a federal court adjudicating a State-created right solely because of the diversity of citizenship of the parties is for that purpose, in effect, *only another court of the State*, it cannot afford recovery if the right to recover is made unavailable by the State nor can it substantially affect the enforcement of the right as given by the State." *Guaranty Trust Co.* v. *York*, 326 U. S. 99, 108-109 (1945). (Emphasis added.)

The doctrine of *Erie* and *York* did not mark a radical departure from the past but merely drew upon and extended an ancient tradition which stressed that when its jurisdiction rests upon diversity, a federal court may not deny the litigants substantive rights created by state law. This principle has been referred to by (later Chief Justice) John Marshall as a "principle in the jurisprudence of this Commonwealth." 3 *Elliot's Debates*, 556. As Mr. Justice Johnson noted in *Lessee of Livingston, et al.* v. *Moore*, 7 Pet. 469, 542 (1833):

> "Now, the relation in which our circuit courts stand to the States in which they respectively sit and act is precisely that of their own courts, especially when adjudicating on cases where State lands or State statutes come under adjudication. When we find principles distinctly settled by adjudications, and known and acted upon as the law of the land, we have no more right to question them or deviate from them than could be correctly exercised by their own tribunals."

In diversity, the sole function of the federal court is "to ascertain what the state law is, not what it ought to be," *Klaxon Co.* v. *Stentor Electric Mfg. Co.*, 313 U. S. 487, 497 (1941) since, as stated in *Ex Parte McNiel*, 13 Wall. 236, 243 (1871):

> "A party forfeits nothing by going into a Federal tribunal . . . his case is tried there upon the same principles, and its determination is governed by the same considerations, as if it had been brought in the proper state tribunal of the same locality."

Respondent brushes our Petition aside as asking that "this Court embark upon a weighing of facts" (p. 1). The only facts needed to illustrate the divergence between the Illinois law and the 7th Circuit decision can be easily culled from Respondent's brief. Respondent concedes the status cards were originally *owned* by Bankers, and that the fact situation at bar is "these status cards were removed from Bankers' file." (p. 4.) Respondent's summary of the legal result reached on these facts by the Court of Appeals is that "Thompson, who sold the cards [to Guarantee] was the one who had possession of them . . . the possesor had a right to the property or the possession thereof, not Bankers." (Respondent's Brief, pp. 5-6.)

Thus Respondent summarizes this case as one where the Court of Appeals held that cards owned by Bankers could be sold by Thompson because he had possession of them.

The substantive law applied by the Court of Appeals to reach such a conclusion is not the substantive law of

Illinois. By finding that Bankers had lost its right to possession at the time the cards were obtained by Seidel (App. ix), the Court of Appeals held as a matter of Illinois law that Bankers' right to possession had been lost through either abandonment or theft. (App. x.)

Abandonment Under Illinois Law.

Under the uncontradicted facts that Bankers owned the cards and guarded them for their own use (App. ix) a finding by the Court of Appeals that Bankers had lost its right to possession by *abandonment* in the plain absence of any affirmative proof[1] of such is clearly violative of both Illinois statute and case law. (pp. 15-17 of petition.) The burden of proof of abandonment is placed by the Illinois courts on Respondent as the one seeking to gain title through Abandonment (petition p. 17). Respondent claims no contrary Illinois authority. The Court of Appeals ignored the Illinois rule that once ownership is shown, there is a presumption that title and ownership continue to exist until some recognized change or alienation is shown (p. 14 of petition). The 7th Circuit's conclusion that the absence of proof of abandonment was fatal to the original owner's cause of action is directly contrary to the Illinois cases cited at p. 17 of the petition.

Respondent improperly cites *Lee Woodworking Co.* v. *Hub Plating Works, Inc.*, 217 F. 2d 453, 454 (7th Cir.) for the proposition that the presumption of ownership which operates in Illinois (supra) does not apply to Bankers. That case would apply to Bankers *only* if it had failed to establish its original right to ownership and possession. Bankers established its *original ownership of the cards*

(1) Illustrative of how void is the record of proof of abandonment is the question Respondent poses as to the status cards: "Petitioner says it did not abandon the cards? Well, what did it do with them?" (p. 4).

(App. ix) thus fully meeting the rule of *Lee* that, in an action for conversion, the initial burden is on the plaintiff to establish his claim of title and possession.

Theft Under Illinois Law.

The other basis of the finding of law by the Court of Appeals that Bankers' right to possession was lost is that it was severed by *theft*. An abundance of Illinois decisional and statutory law holds that a thief cannot convey a title to anyone since the buyer acquires no better title to the goods than the seller had (pp. 17-20 of petition). Respondent refers to *Lyon and Healy* v. *Walldren*, 201 Ill. App. 609, 612 (1916), in a futile attempt to supply some Illinois law to support the *obiter decta* of the 7th Circuit. *Lyon* merely states that possession is strong evidence of title but the inescapable rule remains that "mere possession of chattels, if there is no other evidence of property given by the owner, will not enable the possessor to give good title." *Mori* v. *Chicago National Bank*, 3 Ill. App. 2d 49, 120 N. E. 2d 567, 569 (1954). As we noted at petition p. 14 the possessor did not pretend to give good title, he explicitly warned the cards were "owned by Bankers." The implied finding that Bankers' right to possession was, or could be, terminated through theft was a federal court finding contrary to settled Illinois law.

It has long been settled that when a rule of property is established by the courts of a state, it is binding upon federal courts sitting in that state by reason of diversity.[2] In the case at bar, the Seventh Circuit has plainly abrogated the established property rights of Illinois by its failure to apply the controlling rules of decision. The effect of such a practice was foreseen by Mr. Justice Swayne:

(2) *Beauregard* v. *New Orleans*, 18 How. 497, 502 (1855); *Suydam* v. *Williamson*, 24 How. 427, 433 (1860); *Palmer* v. *Low*, 98 U. S. 1, 14 (1878).

> "The judicial anomaly would be presented of one rule of property in the Federal courts, and another and a different one in the courts of the state; and debts could be recovered in the former which would be barred in the latter. This would be contrary to the uniform spirit of the national jurisprudence from the adoption of the judiciary act of 1789 down to the present time." *Stewart* v. *Kahn,* 11 Wall. 493, 506 (1870).

In addition, the Court of Appeals has misconstrued the plain language of Section 404(b) of the then existing Illinois Criminal Code (p. 23 of petition) and has misapplied the Illinois law on conspiracy (p. 24 of petition). The duty which has been imposed upon the Seventh Circuit by a long line of authorities to ascertain and apply Illinois law pursuant to Section 34 of the Judiciary Act has been clearly cast aside.

In effect, the Court of Appeals has created two divergent and conflicting systems of law relating to abandonment or theft. The rule of *Erie* marked the culmination of a judicial realization that the result of litigation must not depend upon the court in which it was brought yet this is the prospect facing any litigant in Illinois seeking to protect his customer lists. (Chicago is the national center of the direct mail industry.)

Certiorari has been granted pursuant to Rule 19 where a federal court in diversity cases has failed to follow the applicable state law. *Wichita Royalty Co.* v. *City Nat. Bank,* 306 U. S. 103, 106-107 (1938) (failure to apply Texas law as to a bank's liability for trust funds commingled with the trustee's personal account); *Six Companies of Cal.* v. *Joint Highway Dist. No. 13,* 311 U. S. 180, 185 (1940) (failure to follow law of California as to the effect of a liquidated damages clause for delay in a building contract where the contractor abandons the work); *West* v. *American Teleph. & Teleg. Co.,* 311 U. S. 223, 231 (1940) (failure

to apply the law of Ohio in an action for conversion of stock); *Moore* v. *Illinois C. R. Co.*, 312 U. S. 630, 631 (1940) (failure to apply the interpretation of a statute of limitations by the courts of Mississippi).

III. THE DECISION OF THE COURT OF APPEALS HAS RAISED A QUESTION OF PUBLIC IMPORTANCE CALLING FOR THE ATTENTION OF THIS COURT.

Respondent states the issues here are "not important to the public . . ." (p. 3.)

Our system of law has traditionally thought it important to the public that the law give protection to products of creative and imaginative effort since they furnish an invaluable stimulus to other creative work promoting the benefit of all the public. *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 429 (1907). Pursuant to this policy, statutory protection has been bestowed upon technical and scientific invention in the form of patents. Related statutory protection is extended to productive inspiration in other fields in the form of copyrights, trademarks and tradenames. We are concerned here however, with a valuable commercial property known as a "mailing list" which has been held by the Illinois courts to be a "trade secret." *Holsinger, Theis & Co.* v. *Holsinger*, 329 Ill. App. 460, 69 N. E. 2d 360, 365 (1946).

Unlike patents, copyrights, trademarks and tradenames however, no statutory protection is given the owner of a trade secret; his sole remedy is to sue for any improper use. The Illinois courts have recognized customer mailing lists as confidential and highly valuable information entitled protection of the Illinois courts. In a case involving a list of customers owned by a seller of coal whose business was conducted in large part through direct mail advertising, an Illinois court noted:

> "The right of the complainant in its list of agents, which list came into being only as the result of years of work and great expense, and which was, when it came into being entirely unique, and in and of itself a source of sales and profit, was a definite appreciable and valuable property right, more so, perhaps than most forms of good-will . . . Such lists are like stock in trade; they are created at the cost of effort, method, skill and money, to be used in selling coal. As between the parties, the lists of names must be considered, therefore, as property." *Boylston Coal Co.* v. *Rautenbush,* 237 Ill. App. 550, 559-560 (1925).

A mailing list is indispensable to the successful operation of direct mail advertising, yet the practical effect of the decision of the Court of Appeals in the case at bar is to deprive the owner of a customer mailing list of common law protection against theft if he sues in Federal court. As trade secrets form a key source of our imaginative and progressive commercial and industrial genius, it is important to the public that trade secrets be afforded the same protection from theft and misappropriation as are other properties.

The importance of this case is shown by the fact that this particular "trade secret" known as customer mailing lists forms the very heart and soul of a multi-billion dollar business. If left unaltered, the decision of the Court of Appeals requires the owner of a stolen mailing list to document and prove before the court each step and detail of the plan of misappropriation, a plan which by its very nature must be extremely furtive and not normally susceptible of direct proof. The decision has switched the burden of proof in an action for conversion of a mailing list to the owner in a totally unworkable framework, and contrary to Illinois rules of ownership.

The thrust of the decision of the Court of Appeals will have a sweeping impact extending far beyond the par-

ticular factual situation presented here. The guidelines established by the Court of Appeals will control the fate of a vital business which operated as the nation's second largest advertising medium in 1965 (only newspapers are larger; direct mail exceeds television and magazines)[3] involving annual sales of goods and services in excess of $30,000,000,000.[4] Expenditures in 1965 allocated directly to direct mail advertisements totaled $2,271,000,000,[5] and through October of 1966 it was reported 1966 had an increase of 5.5% over 1965, bringing the annual expenditures on direct mail to $2,500,000,000.[6] Furthermore, the Direct Mail Advertising Association has predicted an industry gain of another 6% for 1967.[7] The steady expansion of an industry which depends on ownership of mailing lists is thus being reported at the same time as Respondent assures this Court the law of such list is of no public interest.

The direct mail industry has been referred to as "an essential cog in the economic machinery of the nation".[8] Another member of Congress has stated that "the mails do stimulate and prime the national economy."[9]

Insofar as the stability of the direct mail industry constitutes a critical factor in the economic and commercial well-being of the nation, it is of great public interest that this Court carefully examine the decision of the Court of Appeals. A mailing list is indeed an indispensable com-

(3) 37 *Advertising Age*, p. 92, December 13, 1965.

(4) P. 22 of Petition.

(5) *Printers' Ink*, p. 12, February 11, 1966.

(6) 38 *Advertising Age*, p. 10, January 2, 1967.

(7) *Ibid.*

(8) Remarks of Senator Vance Hartke, cited in the *New York Times*, October 27, 1965, p. 73.

(9) 111 *Congressional Record, 89th Congress*, No. 198, October 22, 1965.

mercial property, a distinctive characteristic of which is that it "can be concealed from competitors in a way not possible with any other advertising." [10] Clearly then it is a property which by its very nature lends itself toward thievery and blackmarketing yet the Court of Appeals has seriously undermined its future protection by its imposition of what is practically an impossible standard of proof upon an owner seeking to prevent piracy and turmoil in the industry. The decision must inevitably disrupt the direct mail advertising industry. The public at large will be subjected to a flood of harassing advertisements from thousands of firms who will pirate their names and addresses from competing firms under the protection of the Court of Appeals' decision if they but take two precautions: (1) use stealth to prevent the original owners from tracing every step of the thievery; and (2) make sure diversity exists with the residence of the owners.

Certiorari should be granted because the issue created presents questions the determination of which bear the utmost importance for the public interest and the national economy. The interests threatened in the case at bar are checkered with serious implications transcending the interests of the immediate parties, and as the respondent himself admits, the writ will be granted where there are principles involved "the settlement of which are important to the public . . ." (p. 3 of respondent's brief citing *Layne & Bowler Corp.* v. *Western Well Works*, 261 U. S. 387, 393).

Respectfully submitted,

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(10) *Small Marketers Aids*, Annual No. 7, *Small Business Administration Annual Series*, p. 42 Washington, D. C. 1965.